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LB 1280

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *

	FY 2002-03		FY 2003-04	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	337,921,709	207,444,644	339,484,064	362,251,332
CASH FUNDS		See Below		See Below
FEDERAL FUNDS				
OTHER FUNDS		See Below		See Below
TOTAL FUNDS	337,921,709	207,444,644	339,484,064	362,251,332

*Does not include impact on political subdivisions. See narrative for political subdivision estimates.

This bill repeals various sales/use tax exemptions and imposes a sales tax on certain services. It allows a food sales tax credit for certain taxpayers. It lowers the individual income tax rate. It grants a homestead exemption as set out in the bill. The bill is generally operative on January 1, 2003, and the Homestead Exemption Program changes are operative on January 1, 2002.

STATE IMPACT: This bill will affect state General Fund tax revenues and expenditures. Following is a summary of the General Fund impact. Detailed analyses of the state revenue and expenditure impact follow this summary:

	FY2003	FY2004	FY2005
Revenue Impact:			
Repeal Selected Sales Tax Exemptions	149,529,887	301,353,520	307,380,590
Tax Selected Services	167,735,757	361,105,603	368,019,047
Food income tax credit	0	(34,648,965)	(34,995,455)
Local Option Food Credit Repaid to State	0	6,248,174	6,310,656
Income Tax Reduction	(109,821,000)	(271,807,000)	(292,193,000)
Total Revenue Impact	207,444,644	362,251,332	354,521,837
Expenditure Impact:			
Implementation Costs of the Department of Revenue	802,065	678,821	678,821
Homestead Exemption Costs	337,119,644	338,805,243	340,499,269
Total Expenditure Impact	337,921,709	339,484,064	341,178,090
Net General Fund Impact: Revenues minus Expenditures	(130,477,065)	22,767,268	13,343,747

REVENUES: This bill will affect state tax revenues as follows:

	FY2003	FY2004	FY2005
General Fund Revenue Impact:			
Repeal Selected Sales Tax Exemptions	149,529,887	301,353,520	307,380,590
Tax Selected Services	167,735,757	361,105,603	368,019,047
Food income tax credit	0	(34,648,965)	(34,995,455)
Local Option Food Credit Repaid to State	0	6,248,174	6,310,656
Income Tax Reduction	(109,821,000)	(271,807,000)	(292,193,000)
Total Revenue Impact	207,444,644	362,251,332	354,521,837

The Legislative Fiscal Office used the estimate provided by the Department of Revenue with the following adjustments:

1. Added revenue for the local option sales tax food credit reimbursement to the state;
2. Averaged the sales tax on services estimate of the Department of Revenue and the Legislative Fiscal Office because of the large difference between the two estimates.

The sales tax increase will also affect the Highway Trust Fund. All sales tax revenues from the sales of motor vehicles are deposited into the Highway Trust Fund. The Highway Trust Fund may be increased between \$32.5 million to \$35.5 million (full year impact). These funds are distributed 53 1/3% to the Department of Roads, and 23 1/3% to cities and 23 1/3% to counties under the highway allocation formula. The Department of Roads may have an increase in its cash funds of between approximately \$17.3 million to \$19 million (full year impact). The Legislative Fiscal Office used the estimates provided by both the Department of Revenue and the Department of Roads for the range of probable impact.

In previous bills that reduced the sales tax, the Department of Roads noted that the variable motor fuel tax would have to be increased. Therefore, it is logical to assume that an increase in sales tax revenues would decrease the variable motor fuel tax. Based on estimates provided by the Department of Roads on previous bills and assuming their budget remains constant, the Legislative Fiscal Office estimates that the variable motor fuel tax may be decreased by 1.4 to 1.6 cents per gallon.

EXPENDITURES: The Department of Revenue estimates the following implementation costs associated with this bill:

FTE	ITEMS	FY2003	FY2004
10.00	Auditor Senior	348,098	361,487
1.00	Revenue Operations Clerk I	21,087	21,898
1.00	Revenue Operations Clerk II	24,366	25,303
2.00	Data Entry Operator	39,229	40,738
0.30	Revenue Agent	8,407	8,730
	Benefits	116,915	121,411
	Operating Costs	152,865	30,506
	Travel	66,423	68,748
	Capital Outlay	24,675	0
14.30	TOTAL	802,065	678,821

The agency estimates the following one-time operating costs:

One-time costs:	FY2003
E-File Update	13,000
Mainframe programming changes	53,000
Printing and mailing updated Circular EN sheets	53,900
TOTAL	119,900

The Department of Revenue estimates ongoing costs for increased mainframe processing time of \$29,000, plus the additional employees for data processing and tax compliance activities.

There will also be increased expenditures associated with the Homestead Exemption Program changes and these costs are estimated as follows:

	FY2003	FY2004	FY2005
Additional expenditures for homestead exemption	337,119,644	338,805,243	340,499,269

IMPACT ON POLITICAL SUBDIVISIONS: This bill will affect political subdivisions with a local option sales tax as follows:

Local option sales tax items:	FY2003	FY2004	FY2005
Repeal Selected Sales Tax Exemptions (includes highway allocation funds)	38,359,096	77,485,374	79,035,081
Tax Selected Services	38,579,224	83,054,289	84,644,381
Total Revenue Increase	76,938,320	160,539,662	163,679,462
Local Option Food Credit Repaid to State	0	(6,248,174)	(6,310,656)
NET REVENUE IMPACT	76,938,320	154,291,488	157,368,806

The sales tax increase for motor vehicles will also increase revenues to cities and counties under the highway allocation formula (23 1/3% to cities and 23 1/3% to counties). Revenues for cities may be increased by up to \$8.2 million, and revenues for counties may be increased by up to \$8.2 million (full-year impact). This amount is included in the above table.

DEPARTMENT OF ADMINISTRATIVE SERVICES

REVIEWED BY	Joe Wilcox	2/12/02	PHONE 471-2526
COMMENTS			
<p><u>Dept. of Revenue</u> - No basis to dispute revenue projections. LB 1122 also deals with changes to sales tax and reflects an increase of only 3.15 FTE. Agency comments on LB 1280 suggests this bill would require an additional 14.3 FTE to administer. That appears high by comparison.</p> <p><u>Dept. of Roads</u> - Concur with Dept. of Roads analysis.</p>			